

GENERAL ASSEMBLY OF NORTH CAROLINA
SESSION 2013

H

1

HOUSE BILL 985

Short Title: Tax Reduction and Simplification. (Public)

Sponsors: Representative Blust (Primary Sponsor).

For a complete list of Sponsors, refer to the North Carolina General Assembly Web Site.

Referred to: Rules, Calendar, and Operations of the House, if favorable, Commerce and Job Development, if favorable, Finance, if favorable, Appropriations.

April 18, 2013

A BILL TO BE ENTITLED

AN ACT TO REDUCE THE INDIVIDUAL AND CORPORATE INCOME TAX RATES TO BE COMPETITIVE WITH OUR NEIGHBORING STATES, TO REPLACE THE FRANCHISE TAX WITH A LOWER BUSINESS PRIVILEGE LICENSE TAX THAT APPLIES TO ALL LIMITED LIABILITY COMPANIES, TO REDUCE THE STATE SALES TAX RATE, AND TO CREATE A MORE STABLE GENERAL FUND REVENUE TAX BASE BY BROADENING THE INCOME AND SALES TAX BASES.

The General Assembly of North Carolina enacts:

PART I. REDUCE INDIVIDUAL INCOME TAX RATES

SECTION 1.(a) G.S. 105-134.2 reads as rewritten:

"§ 105-134.2. Individual income tax imposed.

(a) A tax is imposed upon the North Carolina taxable income of every individual. The tax shall be levied, collected, and paid annually and shall be computed at the following percentages of the taxpayer's North Carolina taxable income.

(1) For married individuals who file a joint return under G.S. 105-152 and for surviving spouses, as defined in section 2(a) of the Code:

Over	Up To	Rate
-0-	\$21,250 <u>\$25,000</u>	6%
\$21,250 <u>\$25,000</u>	\$100,000 <u>NA</u>	7%
\$100,000	NA	7.75%

(2) For heads of households, as defined in section 2(b) of the Code:

Over	Up To	Rate
-0-	\$17,000 <u>\$20,000</u>	6%
\$17,000 <u>\$20,000</u>	\$80,000 <u>NA</u>	7%
\$80,000	NA	7.75%

(3) For unmarried individuals other than surviving spouses and heads of households:

Over	Up To	Rate
-0-	\$12,750 <u>\$12,500</u>	6%
\$12,750 <u>\$12,500</u>	\$60,000 <u>NA</u>	7%
\$60,000	NA	7.75%

(4) For married individuals who do not file a joint return under G.S. 105-152:

Over	Up To	Rate
-------------	--------------	-------------



* H 9 8 5 - V - 1 *

1	-0-	\$10,625	\$12,500	6%
2	\$10,625	\$12,500	\$50,000	NA
3	\$50,000		NA	7.75%

4 (b) In lieu of the tax imposed by subsection (a) of this section, there is imposed for each
 5 taxable year upon the North Carolina taxable income of every individual a tax determined
 6 under tables, applicable to the taxable year, which may be prescribed by the Secretary. The
 7 amounts of the tax determined under the tables shall be computed on the basis of the rates
 8 prescribed by subsection (a) of this section. This subsection does not apply to an individual
 9 making a return under section 443(a)(1) of the Code for a period of less than 12 months on
 10 account of a change in the individual's annual accounting period, or to an estate or trust. The
 11 tax imposed by this subsection shall be treated as the tax imposed by subsection (a) of this
 12 section."

13 **SECTION 1.(b)** G.S. 105-134.6(b)(11) and (b)(22) are repealed.
 14 **SECTION 1.(c)** G.S. 105-151.12 and G.S. 105-151.26 are repealed.
 15 **SECTION 1.(d)** This section is effective for taxable years beginning on or after
 16 January 1, 2013.

17
 18 **PART II. REDUCE CORPORATE INCOME TAX RATE**

19 **SECTION 2.(a)** G.S. 105-130.3 reads as rewritten:
 20 "**§ 105-130.3. Corporations.**

21 A tax at the rate of six and four-tenths percent (6.4%) is imposed on the State net income of
 22 every C Corporation doing business in this State. An S Corporation is not subject to the tax
 23 levied in this section. ~~The tax is a percentage of the taxpayer's State net income computed as~~
 24 ~~follows:~~

25	Income Years Beginning	Tax
26	In 1997	7.5%
27	In 1998	7.25%
28	In 1999	7%
29	After 1999	6.9%."

30 **SECTION 2.(b)** G.S. 105-130.34 is repealed.
 31 **SECTION 2.(c)** G.S. 105-130.3, as amended by subsection (a) of this section,
 32 reads as rewritten:
 33 "**§ 105-130.3. Corporations.**

34 A tax at the rate of ~~six and four-tenths percent (6.4%)~~ five and nine-tenths percent (5.9%) is
 35 imposed on the State net income of every C Corporation doing business in this State. An S
 36 Corporation is not subject to the tax levied in this section."

37 **SECTION 2.(d)** Subsections (a) and (b) of this section are effective for table years
 38 beginning on or after January 1, 2014. Subsection (c) of this section is effective for taxable
 39 years beginning on or after January 1, 2015. The remainder of this section is effective when it
 40 becomes law.

41
 42 **PART III. REPLACE FRANCHISE TAX WITH A LOWER BUSINESS PRIVILEGE**
 43 **TAX THAT INCLUDES ALL LIMITED LIABILITY ENTITIES**

44 **SECTION 3.1.(a)** The title of Article 3 of Chapter 105 of the General Statutes
 45 reads as rewritten:

46 "Article 3.
 47 Franchise Tax.~~Business Privilege Tax.~~"

48 **SECTION 3.1.(b)** G.S. 105-114, 105-114.1, 105-120.2, 105-121.1, 105-122,
 49 105-122.1, 105-125, 105-127, 105-128, and 105-129 are repealed.

50 **SECTION 3.1.(c)** Article 3 of Chapter 105 of the General Statutes is amended by
 51 adding the following new sections to read:

"§ 105-114.2. Definitions.

The following definitions apply in this Article:

- (1) Affiliate. – A business entity under common ownership with another business entity.
- (2) Affiliated group. – Defined in section 1504 of the Code.
- (3) Business entity. – Any of the following:
 - a. A domestic corporation organized under Chapter 55 of the General Statutes or a foreign corporation that has received a certificate of authority under that Chapter authorizing it to do business in this State.
 - b. An electric membership corporation organized under Chapter 117 of the General Statutes.
 - c. A domestic limited liability company formed under Chapter 57C of the General Statutes or a foreign limited liability company that has received a certificate of authority under that Chapter authorizing it to do business in this State.
 - d. A domestic limited partnership formed under Article 5 of Chapter 59 of the General Statutes or a foreign limited partnership that has received a certificate of authority under that Article authorizing it to do business in this State.
 - e. A domestic limited liability partnership registered under Article 3B of Chapter 59 of the General Statutes or a foreign limited liability partnership registered under Article 4A of that Chapter.
 - f. A domestic or foreign limited liability limited partnership registered under G.S. 59-210.
 - g. Any other business whose form of organization confers limited liability on one or more of its owners.
- (4) Capital interest. – The right of a business entity that is not a corporation to receive a percentage of the business entity's assets upon dissolution after payments to creditors.
- (5) City. – Defined in G.S. 105-228.90.
- (6) Code. – Defined in G.S. 105-228.90.
- (7) Doing business. – Each and every act, power, or privilege exercised or enjoyed in this State, as an incident to or by virtue of the powers and privileges granted by the laws of this State.
- (8) Holding company. – A business entity that satisfies at least one of the following conditions:
 - a. It has no assets other than ownership interests in business entities in which it owns, directly or indirectly, more than fifty percent (50%) of the outstanding voting stock or voting capital interests.
 - b. It receives during its taxable year more than eighty percent (80%) of its gross income from business entities in which it owns directly or indirectly more than fifty percent (50%) of the outstanding voting stock or voting capital interests.
- (9) Ownership. – The direct or indirect control of more than fifty percent (50%) of the outstanding voting stock or voting capital interests of a business entity. Ownership of voting stock is determined by reference to the constructive ownership rules for stock under section 318 of the Code. Ownership of capital interests is determined by reference to the constructive ownership rules for partnerships, estates, and trusts in section 318(a)(2)(A) and (B) of the Code with the following modifications:

- 1 a. The term "capital interest" is substituted for "stock" each place it
2 appears.
- 3 b. A noncorporate limited liability company and any noncorporate
4 entity other than a partnership, estate, or trust is treated as a
5 partnership. A noncorporate entity does not include a human being.
6 A noncorporate limited liability company is a limited liability
7 company that does not elect to be taxed as a corporation under the
8 Code.
- 9 c. The operating rule of section 318(a)(5) of the Code applies without
10 regard to section 318(a)(5)(C).
- 11 (10) Parent. – A business entity that has ownership of another business entity.
- 12 (11) Secretary. – Defined in G.S. 105-228.90.
- 13 (12) Subsidiary. – A business entity under the ownership of another business
14 entity.
- 15 (13) Taxable year. – Defined in section 341(b) of the Code.

16 **"§ 105-114.3. Nature of tax.**

17 This Article imposes a privilege tax on a business entity for the privilege of doing business
18 in this State in an organizational form that confers limited liability on one or more owners of
19 the entity. The tax is an accrued tax and is imposed for the exercise of this privilege during the
20 period covered by a tax return. Payment of the tax imposed by this Article is a condition
21 precedent to the right to do business in this State and, for a business entity that is organized or
22 formed in this State, to the right to continue in the entity's organizational form. When a
23 noncorporate business entity is doing business in this State, each owner of the noncorporate
24 business entity is doing business in this State.

25 **"§ 105-114.4. Business privilege tax imposed.**

26 (a) Rate. – An annual privilege tax is imposed on a business entity doing business in
27 this State at the rate of one dollar and twenty-five cents (\$1.25) per one thousand dollars
28 (\$1,000) of the higher of the business entity's adjusted net worth tax base, determined in
29 accordance with G.S. 105-114.5 and the business entity's investment tax base, determined in
30 accordance with G.S. 105-114.6. The tax payable by a business entity may not be less than two
31 hundred dollars (\$200.00). The tax payable by a holding company may not be more than
32 seventy-five thousand dollars (\$75,000).

33 After the end of the taxable year in which a business entity is dissolved, the entity is no
34 longer subject to the tax levied in this Article unless the Secretary finds that the entity has
35 engaged in business activities in this State not appropriate to winding up and liquidating its
36 business.

37 **"§ 105-114.5. Adjusted net worth tax base.**

38 The net worth of a business entity is the entity's total assets less its total liabilities,
39 computed in accordance with generally accepted accounting principles as of the end of the
40 entity's taxable year. If the entity does not maintain its books and records in accordance with
41 generally accepted accounting principles, then its net worth is computed in accordance with the
42 accounting method used by the entity for federal tax purposes so long as the method fairly
43 reflects the entity's net worth for purposes of the tax levied by this section. A business entity's
44 net worth is subject to the following adjustments:

- 45 (1) A deduction for accumulated depreciation and amortization is determined in
46 accordance with the method used for federal tax purposes.
- 47 (2) An addition for indebtedness the business entity owes to a parent, a
48 subsidiary, or an affiliate. The amount added back to the business entity's net
49 worth may be further adjusted as follows:
- 50 a. If part of the capital of the creditor business entity is capital
51 borrowed from a source other than a parent, a subsidiary, or an

1 affiliate, the debtor business entity may deduct a proportionate part
2 of the indebtedness based on the ratio of the borrowed capital of the
3 creditor business entity to the total assets of the creditor business
4 entity.

5 b. If part of the capital of the creditor business entity consists of
6 indebtedness owed to a parent, a subsidiary, or an affiliate that is
7 directly traceable to capital borrowed from a source other than a
8 parent, a subsidiary, or an affiliate, the debtor business entity may
9 deduct a proportionate part of the indebtedness based on the ratio of
10 the borrowed capital of the creditor business entity to the total assets
11 of the creditor business entity.

12 c. If the creditor business entity is taxable under this Article, the
13 creditor business entity may deduct the indebtedness from its net
14 worth to the extent the debtor business entity was not allowed to
15 deduct the indebtedness.

16 (3) A corporation may deduct the cost of treasury stock.

17 **"§ 105-114.6. Investment tax base.**

18 The investment tax base of a business entity is the entity's investment in real and tangible
19 personal property in this State as of the end of the entity's taxable year. A business entity's
20 investment in property is the original purchase price of or consideration for the property subject
21 to the following adjustments:

22 (1) A deduction for depreciation or amortization is determined in accordance
23 with the method used for federal tax purposes.

24 (2) The addition of improvements to the property.

25 (3) A deduction for indebtedness on the property or on an improvement to the
26 property.

27 (4) For a business entity allowed a tax credit under Article 3E of this Chapter, a
28 deduction for the value of the property for which the credit is allowed.

29 **"§ 105-114.7. Exclusions in calculating tax.**

30 (a) Disregarded LLC. – A single member limited liability company whose single
31 member is a corporation is disregarded under this Article if it is disregarded for federal income
32 tax purposes. The corporation that is the single member of the disregarded limited liability
33 company must include the net worth and property of the disregarded limited liability company
34 in the corporation's tax base.

35 (b) No Tax Tiering. – A noncorporate business entity's ownership interest in another
36 noncorporate business entity that is taxable under this Article is excluded in determining the
37 owner's net worth under G.S. 105-114.5.

38 (c) Investment Companies. – The following exclusions apply to investment companies
39 in determining their tax liability under this Article:

40 (1) A regulated investment company may deduct the value of its investments in
41 stocks, bonds, debentures, or other securities or evidences of debt. A
42 regulated investment company is an entity that qualifies as a regulated
43 investment company under section 851 of the Code.

44 (2) A REIT may deduct the value of its investments in real property, unless the
45 REIT is a captive REIT. The terms "REIT" and "captive REIT" have the
46 same meanings as defined in G.S. 105-130.12.

47 (3) A venture capital company may deduct the value of its capital under
48 management. A venture capital company is an entity whose purpose is to
49 provide financing for start-up businesses and that obtains the capital it uses
50 to provide financing only from investors who are accredited investors under
51 17 C.F.R. § 230.215 or are institutional investors.

1 (d) Short Year Adjustment. – A business entity that changes its taxable year and files a
2 "short period" income tax return may deduct from its tax liability computed on an annual basis
3 the amount of tax previously paid that is applicable to the period subsequent to the beginning of
4 the new taxable year.

5 **"§ 105-114.8. Determination of ownership after certain transfers.**

6 (a) Transfers by Corporations. – Ownership of the capital interests in a noncorporate
7 business entity is determined as of the last day of the business entity's taxable year. If a
8 noncorporate business entity and a corporation or an affiliated group have engaged in a pattern
9 of transferring assets between them with the result that each did not own the capital interest on
10 the last day of its taxable year, the ownership of the capital interests in the noncorporate
11 business entity must be determined as of the last day of the corporation's or group of
12 corporations' taxable year.

13 (b) Tax-Free Distribution. – If a noncorporate business entity receives from a person a
14 tax-free contribution of assets under section 721 of the Code within 120 days after making a
15 tax-free distribution of assets to that person under section 732 of the Code with the result that
16 the business entity did not own the capital interests on the last day of its taxable year, the assets
17 that were distributed tax-free are considered owned by the business entity as of the last day of
18 its taxable year.

19 **"§ 105-114.9. Apportionment by multistate business entities.**

20 A business entity that is doing business in this State and in one or more other states must
21 apportion its net worth to this State. A corporation that is subject to income tax under Article 4
22 of this Chapter must use the fraction it applies in apportioning its income under that Article. A
23 business entity that is not subject to income tax under Article 4 of this Chapter must apportion
24 its net worth by using the fraction it would be required to apply in apportioning its income if it
25 were subject to that Article. A business entity that believes this apportionment method subjects
26 a greater portion of its net worth to tax under this section than is attributable to its business in
27 this State may make a written request to the Secretary for permission to use an alternative
28 method of apportionment, in the same manner as provided in G.S. 105-130.4(t1).

29 **"§ 105-114.10. Return and payment.**

30 The tax imposed by G.S. 105-114.4 is due when a return is due. A return is due on or before
31 the 15th day of the fourth month following the end of the business entity's income year. A
32 taxpayer may ask the Secretary for an extension of time to file a return under G.S. 105-263. A
33 business entity must file a return under affirmation with the Secretary at the place and in the
34 manner prescribed by the Secretary. The return must be signed by the president, vice president,
35 treasurer, or chief financial officer of the business entity.

36 ...

37 **"§ 105-116.2. Distribution in lieu of local privilege license tax.**

38 (a) Findings. – The General Assembly finds that the authority formerly given to cities
39 to levy local privilege license taxes led to inequities in taxation among entities engaged in the
40 same business in different locations as well as among entities engaged in different types of
41 business in the same location. The General Assembly further finds that numerous cities rely on
42 local privilege license tax revenue. This section replaces local privilege license tax revenue
43 with a portion of the State business privilege tax.

44 (b) Distribution. – Each fiscal year the Secretary must distribute to cities the net
45 proceeds of tax collected in the preceding calendar year under G.S. 105-114.4 at the rate of ten
46 cents (\$0.10) per one thousand dollars (\$1,000). The Secretary must distribute one-fourth of
47 this amount within 75 days after the end of each calendar quarter. The Secretary must distribute
48 the amount on a per capita basis according to the most recent annual population estimates
49 certified by the State Budget Officer. The share of each city is its proportionate per capita share
50 of the amount set in the following table for the city's population category.

51 **City Population**

Share of Net Proceeds

1	<u>Up to 100,000</u>	<u>10%</u>
2	<u>Over 100,000 but less than 200,000</u>	<u>18%</u>
3	<u>Over 200,000</u>	<u>72%</u>

4 (c) Local Revenue. – The General Assembly finds that the revenue distributed under
5 this section is local revenue, not a State expenditure, for the purpose of Section 5(3) of Article
6 III of the North Carolina Constitution. Therefore, the Governor may not reduce or withhold the
7 distribution.

8 **"§ 105-116.3. Compensating privilege tax on seller that is not a registered retailer.**

9 (a) Tax. – An annual privilege tax is imposed on a person who sells tangible personal
10 property, digital property, or services at retail to a consumer, as defined in G.S. 105-164.3, and
11 who meets both of the following descriptions:

12 (1) The person is not registered as a retailer under Article 5 of this Chapter.

13 (2) The person reported gross sales of at least five million dollars (\$5,000,000)
14 on its most recent federal income tax return.

15 (b) Rate and Scope. – The tax is a percentage of the retailer's gross receipts derived
16 from sales within this State. The percentage rate of the tax is the same as the combined rate
17 under G.S. 105-164.3. This tax is in addition to the tax imposed by G.S. 105-114.4. The tax is
18 payable in the same manner as provided in G.S. 105-114.10.

19 (c) Noncompliance. – A debt owed to a person that does not comply with this section is
20 not collectible and is not subject to execution under Article 28 of Chapter 1 of the General
21 Statutes or any other provision of law. An assignment of a debt is subject to the collection
22 restrictions imposed by this subsection.

23 **"§ 105-116.4. Compensating privilege tax on unregulated electric power producer.**

24 (a) Tax. – An annual privilege tax is imposed on a person that meets all of the
25 following descriptions:

26 (1) Produces electric power by using the public waters of this State and sells the
27 electric power it produces.

28 (2) Is not subject to regulation by the North Carolina Utilities Commission.

29 (3) Received at least five million dollars (\$5,000,000) in gross receipts during
30 the preceding calendar year from its sales of electric power.

31 (b) Rate. – The tax is a percentage of the person's gross receipts derived from sales of
32 electric power produced by use of the State's public waters. The percentage rate of the tax is the
33 same as the combined rate under G.S. 105-164.3. This tax is in addition to the tax imposed by
34 G.S. 105-114.4. The tax is payable in the same manner as provided in G.S. 105-114.10.

35 **"§ 105-125.1. Exempt business entities.**

36 A business entity listed in this section is exempt from the privilege tax imposed by
37 G.S. 105-114.4. Upon request of the Secretary, an exempt business entity must establish its
38 claim for exemption in writing. The exempt entities are:

39 (1) A business entity exempt from federal income tax under section 501 of the
40 Code.

41 (2) An insurance company subject to tax under Article 8B of this Chapter.

42 (3) A single member limited liability company that is disregarded for federal
43 income tax purposes if the single member is a corporation and the
44 disregarded limited liability company's net worth and property is included in
45 that of its single member.

46 (4) A real estate mortgage investment conduit, as defined in section 860D of the
47 Code."

48 **SECTION 3.1.(d)** Notwithstanding G.S. 105-116.2, as enacted by this section, for
49 fiscal year 2014-2015, the Secretary must distribute forty-five million dollars (\$45,000,000) to
50 cities in accordance with the distribution formula in that statute.

1 **SECTION 3.1.(e)** This section is effective for taxable years beginning on or after
 2 January 1, 2015, and applies to taxes due in that year or a subsequent year.

3 **SECTION 3.2.(a)** G.S. 55-1-22 reads as rewritten:

4 "**§ 55-1-22. Filing, service, and copying fees.**

5 (a) The Secretary of State shall collect the following fees when the documents
 6 described in this subsection are delivered to the Secretary for filing:

7 Document	8 Fee
9 ... (23) Annual report-(paper)	25.00No fee
10 (23a) Annual report (electronic)	18.00
11 ...	

12 (b) The Secretary of State shall collect a fee of ten dollars (\$10.00) each time process is
 13 served on the Secretary under this Chapter. The party to a proceeding causing service of
 14 process is entitled to recover this fee as costs if the party prevails in the proceeding.

15 (c) The Secretary of State shall collect the following fees for copying, comparing, and
 16 certifying a copy of any filed document relating to a domestic or foreign corporation:

- 17 (1) One dollar (\$1.00) a page for copying or comparing a copy to the original.
- 18 (2) Fifteen dollars (\$15.00) for a paper certificate.
- 19 (3) Ten dollars (\$10.00) for an electronic certificate.

20 ~~(d) The fee for the annual report in subdivision (23) of this section is nonrefundable."~~

21 **SECTION 3.2.(b)** G.S. 55-16-22 reads as rewritten:

22 "**§ 55-16-22. Annual report.**

23 ~~(a) Except as provided in subsections (a1) and (a2) of this section, each domestic~~
 24 ~~corporation and each foreign corporation authorized to transact business in this State shall~~
 25 ~~deliver an annual report to the Secretary of Revenue in paper form or, in the alternative,~~
 26 ~~directly to the Secretary of State in electronic form as prescribed by the Secretary of State~~
 27 ~~under this section.~~Requirement. – The following businesses must file an annual report with the
 28 Secretary of State on a form prescribed by the Secretary and in the manner required by the
 29 Secretary:

- 30 (1) A corporation that is incorporated under this Chapter.
- 31 (2) A corporation that has received a certificate of authority under this Chapter
 32 authorizing the corporation to transact business in this State.
- 33 (3) A company that is an insurance company regulated under Chapter 58 of the
 34 General Statutes.

35 ~~(a1) Each insurance company subject to the provisions of Chapter 58 of the General~~
 36 ~~Statutes shall deliver an annual report to the Secretary of State.~~

37 ~~(a2) A domestic corporation governed by Chapter 55B of the General Statutes is exempt~~
 38 ~~from this section.~~

39 ~~(a3) The annual report required by this section shall be in a form jointly prescribed by~~
 40 ~~the Secretary of Revenue and the Secretary of State. The Secretary of Revenue shall provide~~
 41 ~~the form needed to file an annual report. The Secretary of State shall prescribe the form needed~~
 42 ~~to file an annual report electronically and shall provide this form by electronic means. The~~
 43 ~~annual report shall set forth all of the following:~~

- 44 (1) ~~The name of the corporation and the state or country under whose law it is~~
 45 ~~incorporated.~~
- 46 (2) ~~The street address, and the mailing address if different from the street~~
 47 ~~address, of the registered office, the county in which its registered office is~~
 48 ~~located, and the name of its registered agent at that office in this State, and a~~
 49 ~~statement of any change of such registered office or registered agent, or~~
 50 ~~both.~~
- 51 (3) ~~The address and telephone number of its principal office.~~

- 1 (4) The names, titles, and business addresses of its principal officers.
2 (4a) Repealed by Session Laws 1997-475, s. 6.1, effective January 1, 1998.
3 (5) A brief description of the nature of its business.

4 ~~If the information contained in the most recently filed annual report has not changed, a~~
5 ~~certification to that effect may be made instead of setting forth the information required by~~
6 ~~subdivisions (2) through (5) of this subsection.~~

7 (b) Content. – An annual report must set out the information listed in this subsection.
8 The information must be current as of the date the business completes the report.~~Information in~~
9 ~~the annual report must be current as of the date the annual report is executed on behalf of the~~
10 ~~corporation.~~ If the information set out in the business's most recent annual report has not
11 changed, the business may certify on its annual report that the information has not changed in
12 lieu of restating the information. A business may amend an annual report at any time to correct,
13 update, or augment information included in a prior report.

14 The following information must be included on the annual report of a business:

- 15 (1) Its name.
16 (2) The state or country under whose law it is incorporated or, if it is an
17 insurance company and is not a corporation, the state or country under
18 whose law it is organized.
19 (3) The street address of its registered office in this State, the county in which
20 the registered office is located, and the name of the registered agent at the
21 registered office. If the registered office or registered agent differs from the
22 registered office or registered agent listed on the preceding annual report, the
23 report must indicate that the registered office or registered agent has
24 changed. A change in registered office or registered agent that is indicated
25 on an annual report is effective when the report is filed.
26 (4) The mailing address of its registered office, if the street address of the office
27 is not the mailing address.
28 (5) The address and telephone number of its principal office.
29 (6) The name, title, and business address of each of its principal officers.
30 (7) A brief description of the nature of its business.

31 (c) Due Date. – An annual report is due by the 15th day of the fourth month following
32 the close of the fiscal year of the business filing the report. An annual report is delinquent if it
33 is not filed within 120 days after it is due, eligible to be delivered to the Secretary of Revenue is
34 due by the due date for filing the corporation's income and franchise tax returns. An extension
35 of time to file a return is an extension of time to file an annual report. At the option of the filer,
36 an annual report may be filed directly with the Secretary of State in electronic form. An annual
37 report required to be delivered to the Secretary of State is due by the fifteenth day of the fourth
38 month following the close of the corporation's fiscal year.

39 (d) Incomplete Report. – If the Secretary of State determines that an annual report filed
40 with the Secretary does not contain the information required by this section, the Secretary must
41 send a written notice to the business that the report is incomplete. An annual report that is
42 corrected to contain the information and filed with the Secretary within 30 days of the date of
43 the notice is considered timely filed.~~If an annual report does not contain the information~~
44 ~~required by this section, the Secretary of State shall promptly notify the reporting domestic or~~
45 ~~foreign corporation in writing and return the report to it for correction. If the report is corrected~~
46 ~~to contain the information required by this section and delivered to the Secretary of State within~~
47 ~~30 days after the effective date of notice, it is deemed to be timely filed.~~

48 (e) ~~Amendments to any previously filed annual report may be filed with the Secretary~~
49 ~~of State at any time for the purpose of correcting, updating, or augmenting the information~~
50 ~~contained in the annual report.~~

51 (f) ~~Expired.~~

(g) ~~When a statement of change of registered office or registered agent is filed in the annual report, the change shall become effective when the statement is received by the Secretary of State.~~

(h) ~~If the Secretary of State does not receive an annual report within 120 days of the date the return is due, the Secretary of State may presume that the annual report is delinquent. This presumption may be rebutted by receipt of the annual report from the Secretary of Revenue or by evidence of delivery presented by the filing corporation."~~

SECTION 3.2.(c) G.S. 57C-1-22(a)(25) reads as rewritten:

"(a) The Secretary of State shall collect the following fees when the documents described in this subsection are delivered to the Secretary of State for filing:

Document Fee

...
(25) Annual report ~~200.00~~No fee
...."

SECTION 3.2.(d) G.S. 59-35.2(a)(18) reads as rewritten:

"(a) The Secretary of State shall collect the following fees when the documents described in this subsection are submitted by a partnership to the Secretary of State for filing:

Document Fee

...
(18) Annual report ~~200.00~~No fee
...."

SECTION 3.2.(e) G.S. 59-1106(a)(22) reads as rewritten:

"(a) The Secretary of State shall collect the following fees when the documents described in this subsection are delivered to the Secretary of State for filing:

Document Fee

...
(22) Annual report for a limited liability limited partnership ~~200.00~~No fee
...."

SECTION 3.2.(f) G.S. 105-122.1 is repealed.

SECTION 3.2.(g) G.S. 105-228.90(a) reads as rewritten:

"(a) Scope. – This Article applies to Subchapters I, V, and VIII of this Chapter, ~~to the annual report filing requirements of G.S. 55-16-22,~~ to the primary forest product assessment levied under Article 12 of Chapter 113A of the General Statutes, and to inspection taxes levied under Article 3 of Chapter 119 of the General Statutes."

SECTION 3.2.(h) G.S. 105-256.1 is repealed.

SECTION 3.2.(i) G.S. 105-259(a) reads as rewritten:

"(a) Definitions. – The following definitions apply in this section:

- (1) Employee or officer. – The term includes a former employee, a former officer, and a current or former member of a State board or commission.
- (2) Tax information. – Any information from any source concerning the liability of a taxpayer for a tax, as defined in G.S. 105-228.90. The term includes the following:
 - a. Information contained on a tax return, a tax report, or an application for a license for which a tax is imposed.
 - b. Information obtained through an audit of a taxpayer or by correspondence with a taxpayer.
 - c. Information on whether a taxpayer has filed a tax return or a tax report.
 - d. A list or other compilation of the names, addresses, social security numbers, or similar information concerning taxpayers.

The term does not include ~~(i)~~ statistics classified so that information about specific taxpayers cannot be identified, ~~(ii) an annual report required to be filed under G.S. 55-16-22 or~~ ~~(iii) identified or~~ the amount of tax refunds paid to either a governmental entity listed in G.S. 105-164.14(c) or ~~to~~ a State agency."

SECTION 3.2.(j) This section becomes effective January 1, 2015. Subsection (f) of this section applies to returns due on or after April 15, 2015, for taxable years beginning on or after January 1, 2015. The remaining sections apply to annual reports due on or after January 1, 2015.

PART IV. REPLACE THE GROSS RECEIPTS PRIVILEGE TAX ON AMUSEMENTS AND MOVIES WITH THE STATE AND LOCAL SALES TAX

SECTION 4.(a) G.S. 105-37.1, 105-38.1, and 105-40 are repealed.

SECTION 4.(b) G.S. 105-164.4(a) is amended by adding the following new subdivision to read:

"§ 105-164.4. Tax imposed on retailers.

(a) A privilege tax is imposed on a retailer at the following percentage rates of the retailer's net taxable sales or gross receipts, as appropriate. The general rate of tax is four and three-quarters percent (4.75%).

- ...
- (9) The general rate of tax applies to admission charges to an entertainment activity listed in this subdivision. Offering any of these listed activities is a service. An admission charge includes a charge for a single ticket, a multioccasion ticket, a seasonal pass, an annual pass, a cover charge, and a charge for amenities. When an admission ticket is resold and the price of the admission ticket is printed on the face of the ticket, the tax does not apply to the face price. When an admission ticket is resold and the price of the admission ticket is not printed on the face of the ticket, the tax applies to the difference between the amount the reseller paid for the ticket and the amount the reseller charges for the ticket. Admission charges to the following entertainment activities are subject to tax:
- a. A live performance or other live event of any kind.
 - b. A movie or other audiovisual work.
 - c. A museum, a cultural site, a garden, an exhibit, a show, or a similar attraction or a guided tour at any of these attractions."

SECTION 4.(c) G.S. 105-164.13 is amended by adding the following subdivision to read:

"§ 105-164.13. Retail sales and use tax.

The sale at retail and the use, storage, or consumption in this State of the following tangible personal property, digital property, and services are specifically exempted from the tax imposed by this Article:

- ...
- (60) Admission charges to any of the following recreational or entertainment activities:
- a. An event that is held at an elementary or secondary school and is sponsored by the school.
 - b. A commercial agricultural fair that meets the requirements of G.S. 106-520.1, as determined by the Commissioner of Agriculture.
 - c. A festival or other recreational or entertainment activity that lasts no more than seven consecutive days and is sponsored by a nonprofit entity that is exempt from tax under Article 4 of this Chapter and

1 uses the entire proceeds of the activity exclusively for the entity's
2 nonprofit purposes. This exemption applies to no more than two
3 activities sponsored by the entity during a calendar year."

4 **SECTION 4.(d)** This section becomes effective July 1, 2014, and applies to sales
5 made on or after that date and to gross receipts received on or after July 1, 2014, from
6 admissions purchased on or after that date. Gross receipts received on or after July 1, 2014,
7 from admissions purchased before that date are taxable under G.S. 105-37.1 or G.S. 105-38.1,
8 as appropriate.

9
10 **PART V. REPEAL SPECIAL INTEREST EXEMPTIONS AND PREFERENTIAL**
11 **RATES IN SALES TAX AND EXPAND SALES TAX BASE TO INCLUDE SERVICE**
12 **CONTRACTS**

13 **SECTION 5.(a)** G.S. 105-164.3 is amended by adding a new subdivision to read:

14 **"§ 105-164.3. Definitions.**

15 The following definitions apply in this Article:

16 ...

17 (1c) Alteration, repair, maintenance, cleaning, and installation services. – The
18 term includes the activities listed in this subdivision:

19 a. Altering tangible personal property by tailoring, monogramming,
20 engraving, or making similar changes to the property.

21 b. Repairing tangible personal property to restore it to proper working
22 order.

23 c. Maintaining tangible personal property to keep the property in
24 working order, to avoid breakdown, or to prevent unnecessary
25 repairs.

26 d. Cleaning tangible personal property.

27 e. Installing tangible personal property.

28 ...

29 (38b) Service contract. – A warranty agreement, a maintenance agreement, a repair
30 contract, or a similar agreement or contract by which the seller agrees to
31 maintain or repair tangible personal property.

32 (38c) Short-term lease or rental. – Defined in G.S. 105-187.1."

33 **SECTION 5.(b)** G.S. 105-164.4(a), as amended by Section 3 of this act, reads as
34 rewritten:

35 **"§ 105-164.4. Tax imposed on retailers.**

36 (a) A privilege tax is imposed on a retailer at the following percentage rates of the
37 retailer's net taxable sales or gross receipts, as appropriate. The general rate of tax is four and
38 three-quarters percent (4.75%).

39 ...

40 (4a) The general rate of tax ~~three percent (3%)~~ applies to the gross receipts
41 derived from sales of ~~electricity~~, electricity to a residential property. ~~other~~
42 than sales of electricity subject to tax under another subdivision in this
43 section. A person who sells electricity is considered a retailer under this
44 Article. As used in this subdivision, the term "residential property" means
45 property where the predominant use is for residential purposes.

46 ...

47 (10) The general rate of tax applies to the any of the following tangible personal
48 property services:

49 a. A service contract.

50 b. Alteration, repair, maintenance, cleaning, and installation services.

51 c. Short-term lease or rental of any of the following:

1. A mini-warehouse or other secure self-storage space.
2. Storage for furs and other clothing not held for sale.
3. Docking or storage for a boat or other watercraft.
4. Storage for an aircraft.

...."

SECTION 5.(c) G.S. 105-164.13 is amended by adding a new subdivision to read:

"§ 105-164.13. Retail sales and use tax.

The sale at retail and the use, storage, or consumption in this State of the following tangible personal property, digital property, and services are specifically exempted from the tax imposed by this Article:

...

(61) Any of the following provided for tangible personal property that is exempt from tax under this Article, other than an item exempt from tax under G.S. 105-164.13(32):

- a. A service contract.
- b. Alteration, repair, maintenance, cleaning, or installation services."

SECTION 5.(d) G.S. 105-164.13(11a), (13c), (27), (28), (30), (49), and (50) are repealed.

SECTION 5.(e) G.S. 105-164.13C and G.S. 105-164.13D are repealed.

SECTION 5.(f) G.S. 105-467(b) reads as rewritten:

"(b) Exemptions and Refunds. – The State exemptions and exclusions contained in ~~G.S. 105-164.13, the State sales and use tax holidays contained in G.S. 105-164.13C and G.S. 105-164.13D,~~ G.S. 105-164.13 and the State refund provisions contained in G.S. 105-164.14 through G.S. 105-164.14B apply to the local sales and use tax authorized to be levied and imposed under this Article. Except as provided in this subsection, a taxing county may not allow an exemption, exclusion, or refund that is not allowed under the State sales and use tax. A local school administrative unit and a joint agency created by interlocal agreement among local school administrative units pursuant to G.S. 160A-462 to jointly purchase food service-related materials, supplies, and equipment on their behalf is allowed an annual refund of sales and use taxes paid by it under this Article on direct purchases of tangible personal property and services, other than electricity, telecommunications service, and ancillary service. Sales and use tax liability indirectly incurred by the entity on building materials, supplies, fixtures, and equipment that become a part of or annexed to any building or structure that is owned or leased by the entity and is being erected, altered, or repaired for use by the entity is considered a sales or use tax liability incurred on direct purchases by the entity for the purpose of this subsection. A request for a refund shall be in writing and shall include any information and documentation required by the Secretary. A request for a refund is due within six months after the end of the entity's fiscal year. Refunds applied for more than three years after the due date are barred."

SECTION 5.(g) This section becomes effective July 1, 2014, and applies to sales made on or after that date.

PART VI. REDUCE STATE SALES TAX RATE FROM 4.75% TO 4.25% OVER TWO YEARS

SECTION 6.(a) G.S. 105-164.4(a), as amended by Sections 3 and 4 of this act, reads as rewritten:

"§ 105-164.4. Tax imposed on retailers.

(a) A privilege tax is imposed on a retailer at the following percentage rates of the retailer's net taxable sales or gross receipts, as appropriate. The general rate of tax is ~~four and three-quarters percent (4.75%),~~ four and one-half percent (4.5%).

...."

1 **SECTION 6.(b)** G.S. 105-164.4(a), as amended by subsection (a) of this section,
2 reads as rewritten:

3 **"§ 105-164.4. Tax imposed on retailers.**

4 (a) A privilege tax is imposed on a retailer at the following percentage rates of the
5 retailer's net taxable sales or gross receipts, as appropriate. The general rate of tax is ~~four and~~
6 ~~one-half percent (4.5%)-four and one-fourth percent (4.25%).~~

7 "

8 **SECTION 6.(c)** Subsection (a) of this section becomes effective July 1, 2014, and
9 applies to sales made on or after that date. Subsection (b) of this section becomes effective July
10 1, 2015, and applies to sales made on or after that date. The remainder of this section is
11 effective when it becomes law.

12
13 **PART VII. TRANSITIONAL PROVISION, SAVINGS CLAUSE, AND EFFECTIVE**
14 **DATE**

15 **SECTION 7.(a)** G.S. 105-237.1(a) reads as rewritten:

16 "(a) Authority. – The Secretary may compromise a taxpayer's liability for a tax that is
17 collectible under G.S. 105-241.22 when the Secretary determines that the compromise is in the
18 best interest of the State and makes one or more of the following findings:

19 ...

20 (6) The taxpayer is a retailer or a consumer under Article 5 of this Chapter, the
21 assessment is for sales or use tax the retailer failed to collect or the consumer
22 failed to pay on an item that first became taxable under that Article on or
23 after July 1, 2014, and the retailer or consumer made a good faith effort to
24 comply with the sales and use tax laws. This subdivision expires on July 1,
25 2024."

26 **SECTION 7.(b)** This act does not affect the rights or liabilities of the State, a
27 taxpayer, or another person arising under a statute amended or repealed by this act before the
28 effective date of its amendment or repeal, nor does it affect the right to any refund or credit of a
29 tax that accrued under the amended or repealed statute before the effective date of its
30 amendment or repeal.

31 **SECTION 7.(c)** Except as otherwise provided, this act is effective when it
32 becomes law.